

# EnerVest Diversified Income Trust

## 2001 Annual Report

bc  
pei  
nova  
scotia  
yukon  
nunavut  
saskatchewan  
newfoundland  
alberta ontario  
quebec manitoba  
northwest territories  
new brunswick new york  
new england chicago asia europe  
global north america canada worldwide  
information commodity regulatory energy  
resources iron ore hydroelectric cogeneration  
deregulation sweet blend green alternate fuels  
delivery reliable investments economics alliances  
regeneration spruce cedar apartments retail urban  
hotels offices pallisar empress luxury electricity  
residential commercial automotive townhouses  
le chateau frontenac sustainable timber pine  
biodiversity habitat wildlife flight kitchens  
storage stevedoring intermodal ice-class  
ships freight containers hangars ramps  
utilities pipelines oil mining seedlings  
mattresses gas sugar real estate  
performance diversity  
EnerVest



Celebrating 5 Years Of  
Strong Performance

 **EnerVest**  
*diversified management inc.*

I want to know more about the **Distribution Reinvestment Plan**

EnerVest Diversified Income Trust has established a **Distribution Reinvestment Plan**. If you would like to receive more information about the Plan, please complete and return this card free of charge.

Name: \_\_\_\_\_

Company (if applicable): \_\_\_\_\_

Address: \_\_\_\_\_

Daytime Phone: \_\_\_\_\_

Postal Code: \_\_\_\_\_

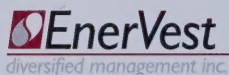
Signature: \_\_\_\_\_

Date: \_\_\_\_\_

e-mail address: \_\_\_\_\_

Please complete this card, and return it free of charge by mail; fax it to us at (403) 571-5554; e-mail us at [info@enervest.com](mailto:info@enervest.com); or phone our Investor Relations Department at (403) 571-5550.

## EnerVest Diversified Income Trust



### Please Keep Me Informed

Name: \_\_\_\_\_

Company (if applicable): \_\_\_\_\_

Address: \_\_\_\_\_

Daytime Phone: \_\_\_\_\_

Postal Code: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

e-mail address: \_\_\_\_\_

- I wish to remain on/be added to the EnerVest supplemental mailing list. ☐  
I wish to remain on/be added to the EnerVest Newsletter mailing list. ☐

Please select the category best describing your relationship with EnerVest:

- ☐ Registered unitholder (I hold trust unit certificates)  
☐ Non-registered unitholder (trust units held by third party)  
☐ Potential unitholder ☐ Broker ☐ Analyst ☐ Other \_\_\_\_\_

Please complete this card, and return it free of charge by mail; fax it to us at (403) 571-5554; e-mail us at [info@enervest.com](mailto:info@enervest.com); or phone our Investor Relations Department at (403) 571-5550.

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ENERVEST DIVERSIFIED INCOME TRUST  
2540, 700 - 9 AVENUE SW  
CALGARY AB T2P 9Z9

EnerVest Diversified Income Trust



0380981199-T2P3V4-BR01

ENERVEST DIVERSIFIED INCOME TRUST  
2540, 700 - 9 AVENUE SW  
CALGARY AB T2P 9Z9



# **PRESIDENT'S REPORT TO UNITHOLDERS**

## **EnerVest Diversified Income Trust**

I would like to take this opportunity to welcome all of the new EnerVest unitholders through the EnerVest Exchange Offer completed in November of 2001, as well as to thank our existing unitholders for their continual support. We really do appreciate your faith and trust in us.

So the question begs to be asked and answered, "what has EnerVest done for me lately?" Total return to the unitholders was 27.9% for the year. If you take into effect the rights offering which a large majority of unitholders exercised on, the total return increases to 32.0%. Revenues increased 57% to \$16.4 million. General and administrative costs, on a per unit basis, decreased 39% and we strive to continue these cost decreases. EnerVest's trading volumes have increased 153% to approximately 47,000 units per day with 28.9 million units outstanding. EnerVest's net assets increased \$111.1 million, representing a 128% increase, primarily through the rights offering in August, the exchange offer in November and growth within the portfolio. EnerVest has also continued its spotless record of monthly distributions to unitholders of record as of the last day of the month.

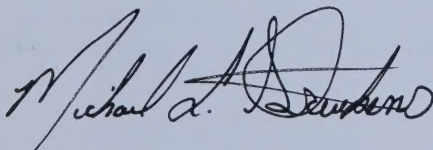
EnerVest issued a rights offering in August, 2001 whereby, for every four units of EnerVest owned, unitholders received the right to purchase one additional unit for \$6.10. Holders of approximately 95% of the rights were exercised under the Basic Subscription Privilege, resulting in 3,128,272 units. Under the Additional Subscription Privilege an additional 2,510,098 units were subscribed for raising, in total, approximately \$34.4 million. With a year-end closing price of \$6.90, this represents an 18.9% return, including distributions, over approximately a 4.5 month period.

EnerVest also issued a successful exchange offer in 2001, raising net proceeds of approximately \$63.2 million of capital. In this offering, unitholders of selected trusts and limited partnerships had the opportunity to exchange their units for units of EnerVest. The price of this issue was the 20-day weighted average price for all securities and was completed at \$6.69 per EnerVest unit. EnerVest's Exchange Offer is ideal for investors wishing to be in an actively managed, diversified trust portfolio and allowed investors to crystallize capital losses and/or gains for tax purposes.

It is very important for me to take a minute to address the Enron scandal down south, the management of which in my opinion, forgot who they worked for and used creative financing and accounting, to hide debt and losses and deceive analysts and investors alike. I want to assure you, that EnerVest never has, nor ever will have, off balance sheet financings. I also further want to assure you that we know who we work for, you the investor.

Looking forward into 2002 EnerVest strives to deliver strong growth, above average returns, continued portfolio diversity and active sector management. The trust sector continues to grow and utilizing thorough due diligence before investing, is now more critical than ever.

EnerVest is always interested to hear from Unitholders and prides itself on timely reporting, excellent investor relations and dedication to the superior performance we have reported and touched upon above.



**Michael L. Streukens**

President and Chief Executive Officer, EnerVest Diversified Management Inc.  
Manager of EnerVest Diversified Income Trust

# **INVESTMENT MANAGER'S REPORT TO UNITHOLDERS**

## **EnerVest Diversified Income Trust**

The Income and Royalty Trust sector turned in a strong performance in 2001. The primary factors driving these returns were a declining interest rate environment, which created a strong demand for income producing investments, and the relative uncertainty surrounding the equity markets.

### **2001 Review**

The primary strategy in 2001 was to shift from economically sensitive trusts and focus on sectors with greater stability of distributions. The rationale was that a slowing economy would result in lower distributions for the commodity sensitive trusts and declining interest rates would have a positive impact on the interest sensitive sectors. In addition, the valuations in sectors such as oil and gas were high relative to our long-term commodity price view. We therefore reduced the weighting in oil and gas and increased the exposure to the real estate and pipeline sectors.

### **2002 Outlook**

The main concerns looking forward are the potential for interest rates to rise and the proliferation of new income and royalty trust issues. Our current view is that the easing by the Federal Reserve has ended and interest rates will stabilize to increase modestly from current levels. As we are still in the early stages of the economic recovery we do not expect a significant upward move in rates.

There has been a significant number of new income and royalty trust issues and this trend will likely continue. Generally, this can be viewed as positive as it allows for broader diversification of the trust. However, we will review each position carefully based on its individual investment merits and suitability for the trust. Some of the larger positions we have added on a new issue basis are, Chemtrade Logistics, Davis and Henderson and Livingston International.

We are maintaining our cautious stance on the oil and gas sector. Though there has been an increase in the underlying commodities, we continue to believe valuations in the sector are generally high. The portfolio is currently 19% weighted in the sector. We have added positions in smaller cap oil and gas trusts such as Provident and Advantage, which we feel are relatively more attractive. Core names continue to be ARC and Enerplus.

We have increased the real estate sector weighting to 20%. New names include Summit (industrial property market) and Legacy (hotels) with the core positions being H&R and RioCan. We are planning to maintain this weighting as lower interest rates and economic recovery should have a positive effect on distributions and property valuations.

We also continue to maintain positions in operating trusts such as Superior Propane and Atlas Cold Storage as they continue to grow their business and provide reasonable earning visibility and growing distributions.

The power and utility trusts appear fully valued relative to long Canada bonds. Our weighting in the sector is approximately 7% with Boralex being our largest holding. Boralex is a high quality trust with an attractive yield and has potential to increase distributions.

We are maintaining our 10% weighting in the pipeline sector, though remain cautious, as valuations are high relative to their underlying growth rates. Fort Chicago continues to be a core holding as we feel the Alliance pipeline is a solid long-term

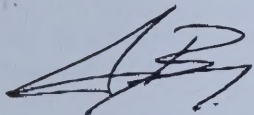


# INVESTMENT MANAGER'S REPORT TO UNITHOLDERS-continued

## EnerVest Diversified Income Trust

strategic asset for delivering natural gas to the United States market.

The outlook for 2002 remains positive for the income and royalty trust sector. Higher valuations across the trust sector and a low probability of continued interest rate decreases will constrain returns. Market expansion, with new issues, provides opportunities for further diversification. We will review each new issue for its investment merits and suitability for EnerVest.



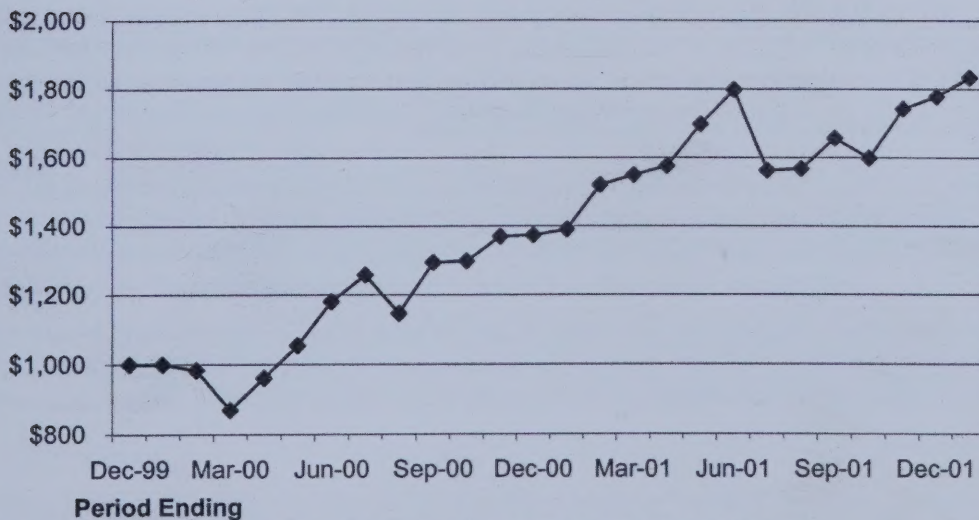
### Greg Bay

President, Cypress Capital Management Ltd.

Investment Manager of EnerVest Diversified Income Trust

### EnerVest Diversified Income Trust

Value of \$1,000 Invested on December 31, 1999



Includes capital appreciation, distributions and effects of rights offerings.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## EnerVest Diversified Income Trust

The following is a discussion of EnerVest Diversified Income Trust's results for the year ended December 31, 2001 and should be read in conjunction with the financial statements starting on page 7.

### Financial Performance

EnerVest provided a total return to Unitholders during the year of 27.9% (2000 was 33.4%) based on the opening Toronto Stock Exchange ("TSE") value of \$6.05 per unit (2000 was \$5.15) and the closing value of \$6.90 (2000 was \$6.05). Including the effect of the rights offerings, the returns for 2001 and 2000 are 32.0% and 38.8% respectively. This compares with the TSE 300 Total Return Index of 12.9% (2000 was 6%).

For the fourth quarter of 2001, EnerVest's total return was 14.7% as compared with 7.0% for the fourth quarter of 2000. The TSE 300 Total Return Index for the fourth quarter of 2001 and 2000 was 12.9% and negative 13.2%, respectively.

	Quarter Ended 2001				Quarter Ended 2000			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues (\$ Million)	5.2	4.2	3.4	3.6	3.5	2.6	2.2	2.2
Net Income (\$ Million)	4.0	3.4	2.5	2.7	2.6	2.0	1.5	1.7
Per Unit	\$0.177	\$0.213	\$0.189	\$0.206	\$0.218	\$0.197	\$0.178	\$0.196

Revenues increased 57%, from \$10.5 million in 2000, to \$16.4 million in 2001, mainly due to increased distributions from oil and gas trusts during the first half of the year and the larger investment portfolio resulting from the Exchange Offering completed in November, 2000 and the Rights Offering completed in August, 2001.

General and administrative costs, on a per unit basis, decreased 39% from \$0.11 in 2000 to \$0.067 in 2001. These cost savings are primarily the result of the Manager's concentrated effort to reduce general and administrative costs, combined with economies of scale resulting from the increased number of units outstanding. This trend continued during the fourth quarter of 2001 with general and administrative costs of \$0.016 per unit being a 38% decrease from the \$0.026 per unit in the fourth quarter in 2000.

Management fees remained at 1.5% of the net asset value of EnerVest.

Interest expense increased in 2001 primarily due to the 50% increase in EnerVest's bank credit facility to \$15 million, effective October, 2000. Consistent with our investment philosophy, proceeds from this credit facility were invested in attractively priced income and royalty trusts that provide a balance of high cash distribution returns and the potential for capital appreciation.

Net investment income increased 61%, from \$7.8 million in 2000 to \$12.6 million in 2001. However, net investment income per unit decreased from \$0.80 to \$0.77 per unit in 2001 primarily as a result of lower distributions from oil and gas trusts during the second half of the year and the lack of leverage, in the same ratio to assets, as in 2000.

### Cash Distributions

During 2001, EnerVest distributed \$0.89 per weighted average number of Units outstanding, as compared to \$0.83 for 2000. This represents a 7.2% increase over 2000. These distributions represent an annualized pre tax yield of 14.7% (2000 was 16.1%) based on the year 2001 opening TSE value of \$6.05 per unit (2000 was \$5.15).

The distributions were 72.6% tax deferred (2000 was 73.7%) representing an after tax distribution rate of 11.1% (2000 was



# **MANAGEMENT'S DISCUSSION AND ANALYSIS - continued**

## **EnerVest Diversified Income Trust**

13.8%), or an equivalent pre tax interest rate of 22.2% (2000 was 27.6%), assuming a 50% marginal tax rate. In 2001, EnerVest continued its perfect record of monthly distributions since its inception as distributions were paid monthly to unitholders of record as of the last day of the month.

### **Liquidity And Capital Resources**

During the year 2001 the average trading volume of EnerVest increased 153% to approximately 47,000 units per day (2000 was 18,600 units per day). For the fourth quarter of 2001, the average trading volume of EnerVest was 78,100, up 260% from 21,700 during the fourth quarter of 2000. The increased liquidity is primarily the result of the increased asset value of EnerVest and the number of units outstanding, the weighted average of which was 16.2 million during 2001 compared with 9.8 million for 2000. EnerVest exited 2001 with 28.9 million units outstanding after the closing of the Exchange Offering in November of 2001.

During 2001, EnerVest raised approximately \$34.4 million of capital through a Rights Offering and approximately \$67.0 million of capital through an Exchange Offering. In this Exchange Offering, holders of various trust and limited partnership units had the opportunity to exchange their units for units of EnerVest Diversified Income Trust.

Also, during 2001, EnerVest believed that its units were trading at prices below their underlying value. Accordingly, EnerVest utilized its Normal Course Issuer Bid through which it acquired 15,000 trust units for cash consideration of \$101,850 (2000 was 333,200 trust units for cash consideration of \$1,820,937).

During the year, the net assets of EnerVest increased \$111.1 million, from \$86.7 million to \$197.8 million, representing a 128% increase. This increase was primarily the result of the rights offering in August, an exchange offering in November, and the increase in net assets from operations (less costs of issue). The Manager believes this increased size (EnerVest is now the largest Diversified Income Trust) provides both enhanced diversification and economies of scale resulting in increased liquidity and lower general and administrative costs per unit.

### **Off Balance Sheet Financing**

With the recent Enron Corp. debacle, the Manager would like to assure all unitholders that EnerVest's trust indenture does not permit EnerVest to conduct transactions resulting in off balance sheet financing.

### **Future Outlook**

We are very positive on the outlook for EnerVest for the year 2002. Current low interest rates, strong balance sheets in the oil and gas sector, and economic expansion are all positive for the royalty and income trust market. We have also seen several new industrial trusts enter the market during the past few months providing further opportunities.

At the March 14, 2002 Special Meeting of Unitholders an amendment to the Management Agreement was approved that reduces the annual management fees from 1.5% to 1.0% of the net asset value of EnerVest in excess of \$250,000,000. This lowering of the management fees will further increase the amount available for distributions to Unitholders.

### **Risks And Uncertainties**

EnerVest is exposed to commodity price risk and, although highly diversified, a severe market failure could significantly affect the value and selling price of securities within EnerVest's portfolio.

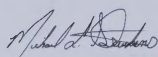
# MANAGEMENT'S RESPONSIBILITY STATEMENT

## EnerVest Diversified Income Trust

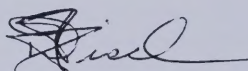
The financial statements of **EnerVest Diversified Income Trust** were prepared by, and are the responsibility of, the management of EnerVest Diversified Management Inc. (the "Manager") as agreed in the Management Agreement between the Manager and the Trust. These statements have been prepared in accordance with generally accepted accounting principles.

Management has designed and maintains a system of internal controls to safeguard assets and to ensure that transactions are properly authorized and recorded. Where estimates are used, management has ensured that careful judgment has been made and that these estimates are reasonable based on all information known at the time the estimate is made.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Manager, with the approval of the Board of Directors, has appointed Deloitte & Touche LLP to examine the financial statements of the Trust and provide their independent opinion.



**Michael L. Streukens**  
President and Chief Executive Officer



**David J. Fischer**  
Chief Financial Officer

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## AUDITORS' REPORT

### To the Unitholders of EnerVest Diversified Income Trust:

We have audited the statements of net assets and portfolio investments of **EnerVest Diversified Income Trust** as at December 31, 2001 and 2000 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust and its portfolio investments as at December 31, 2001 and 2000 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
March 28, 2002



Chartered Accountants



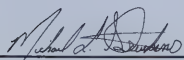
# STATEMENTS OF NET ASSETS

## EnerVest Diversified Income Trust

December 31, 2001 and 2000

	2001 \$	2000 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	-	106,676
Investments, at market value	212,224,992	100,584,142
Distributions and accrued interest receivable	2,538,237	1,764,192
Current portion of promissory note receivable (Note 3)	49,912	49,912
	214,813,141	102,504,922
Promissory note receivable (Note 3)	359,412	409,325
Deferred charge	17,489	39,351
	376,901	448,676
	215,190,042	102,953,598
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 8)	358,720	371,291
Distributions payable to Unitholders (Note 4)	2,021,401	926,681
Bank credit facility (Notes 5 & 9)	15,000,000	-
	17,380,121	1,297,972
Bank credit facility (Notes 5 & 9)	-	15,000,000
	197,809,921	86,655,626
<b>NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>		
	28,877,164	13,238,304
<b>NET ASSET VALUE PER UNIT</b>		
	\$6.85	\$6.55

Approved on behalf of the Trust by the Board of EnerVest Diversified Management Inc., the Manager

 Director

 Director

## STATEMENTS OF OPERATIONS

### EnerVest Diversified Income Trust

Years Ended December 31, 2001 and 2000

	2001 \$	2000 \$
<b>INVESTMENT REVENUES</b>	<b>16,413,240</b>	<b>10,462,494</b>
<b>EXPENSES</b>		
General and administrative (Note 8)	1,094,412	1,080,243
Management fees (Note 8)	1,802,674	936,023
Interest on bank credit facility	937,793	650,320
	<b>3,834,879</b>	<b>2,666,586</b>
<b>NET INVESTMENT INCOME</b>	<b>12,578,361</b>	<b>7,795,908</b>
NET GAIN ON SALE OF INVESTMENTS	6,868,758	2,718,183
NET UNREALIZED APPRECIATION OF INVESTMENTS	15,677,308	15,132,701
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>35,124,427</b>	<b>25,646,792</b>
<b>NET INVESTMENT INCOME PER UNIT</b>	<b>\$0.77</b>	<b>\$0.80</b>
<b>WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING</b>	<b>16,236,413</b>	<b>9,787,942</b>



# STATEMENTS OF CHANGES IN NET ASSETS

## EnerVest Diversified Income Trust

Years Ended December 31, 2001 and 2000

	2001 \$	2000 \$
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>86,655,626</b>	<b>49,884,524</b>
Increase (decrease) in net assets from:		
<b>OPERATIONS:</b>		
Increase in net assets from operations	<b>35,124,427</b>	<b>25,646,792</b>
<b>UNITHOLDER TRANSACTIONS:</b>		
Proceeds from issuance of Trust Units	<b>101,407,596</b>	<b>27,358,369</b>
Costs of issuance of Trust Units	<b>(4,490,765)</b>	<b>(1,472,057)</b>
Return of capital	<b>(6,324,238)</b>	<b>(4,805,235)</b>
Repurchase of Trust Units	<b>(101,850)</b>	<b>(1,820,937)</b>
Proceeds from Dividend Reinvestment Plan	<b>32,759</b>	<b>-</b>
	<b>90,523,502</b>	<b>19,260,140</b>
<b>DISTRIBUTIONS TO UNITHOLDERS</b> (Note 4)	<b>(14,493,634)</b>	<b>(8,135,830)</b>
<b>NET ASSETS, END OF YEAR</b>	<b>197,809,921</b>	<b>86,655,626</b>
<b>DISTRIBUTIONS PER UNIT</b>	<b>\$0.89</b>	<b>\$0.83</b>

# STATEMENTS OF PORTFOLIO INVESTMENTS

## EnerVest Diversified Income Trust

December 31, 2001 and 2000

	2001		2000	
	Adjusted Cost Base \$	Market Value \$	Adjusted Cost Base \$	Market Value \$
<b>CASH AND SHORT-TERM NOTES</b>	-	-	762,396	762,396
<b>OIL AND GAS EQUITIES</b>				
Advantage Energy Income Trust	4,649,448	5,051,558	-	-
APF Energy Trust	390,086	388,504	-	-
ARC Energy Trust	9,266,361	11,093,752	4,851,502	5,888,271
EnerMark Income Fund	-	-	4,307,172	4,753,173
Enerplus Resource Fund	9,210,100	9,545,159	4,238,811	5,805,104
Freehold Royalty Trust	2,372,634	2,412,010	-	-
NAL Oil & Gas Trust	-	-	329,661	340,568
NCE Energy Trust	771,065	703,178	-	-
Pengrowth Energy Trust	-	-	1,177,181	1,197,600
PrimeWest Energy Trust	-	-	3,719,052	5,099,835
Provident Energy Trust	2,698,562	2,291,071	-	-
Shiningbank Energy Income Fund	149,830	245,858	2,019,496	4,027,419
Ultima Energy Royalty Trust	455,399	439,618	-	-
Viking Energy Royalty Trust	2,454,536	2,400,000	2,019,329	3,852,929
	<b>32,418,021</b>	<b>34,570,708</b>	<b>22,662,204</b>	<b>30,964,899</b>
<b>PIPELINE AND UTILITY EQUITIES</b>				
Drayton Valley Power Income Fund	-	-	1,391,403	1,396,687
Fort Chicago Energy Partners	7,736,248	8,617,920	2,285,690	2,292,025
Great Lakes Hydro Income Fund	95,354	92,460	-	-
KMS Power Income Fund	1,285,136	1,433,882	1,272,604	1,412,250
Koch Pipelines Canada Limited Partnership	5,881,164	6,258,160	4,015,125	3,399,480
Northland Power Income Fund	2,840,496	4,137,047	1,426,831	1,843,455
Pembina Pipeline Income Trust	8,024,291	10,975,699	5,003,250	5,809,475
Superior Propane Income Fund	7,557,402	9,007,032	4,145,220	5,146,722
Taylor NGL Limited Partnership	3,371	3,520	-	-
TransCanada Power Global	644,216	664,210	-	-
TransAlta Power Limited Partnership	4,355,338	5,691,203	1,737,154	2,017,268
	<b>38,423,016</b>	<b>46,881,133</b>	<b>21,277,277</b>	<b>23,317,362</b>
<b>LONG LIFE RESOURCE EQUITIES</b>				
Athabasca Oil Sands Trust	-	-	4,345,049	4,251,510
Canadian Oil Sands Trust	9,212,422	11,937,965	2,392,450	2,342,345
Labrador Iron Ore Royalty Income Fund	6,777,313	7,341,747	4,178,948	4,975,138
PRT Forest Regeneration Income Fund	3,916,063	4,346,760	2,121,258	1,827,000
TimberWest Forest Corp.	8,854,108	10,177,934	4,007,778	4,115,513
	<b>28,759,906</b>	<b>33,804,406</b>	<b>17,045,483</b>	<b>17,511,506</b>



# STATEMENTS OF PORTFOLIO INVESTMENTS - continued

## EnerVest Diversified Income Trust

December 31, 2001 and 2000

	2001		2000	
	Adjusted Cost Base \$	Market Value \$	Adjusted Cost Base \$	Market Value \$
<b>INDUSTRIAL EQUITIES</b>				
Algonquin Power Income Fund	4,119,899	4,662,320	909,917	1,021,817
Atlas Cold Storage Income Trust	7,379,517	9,193,932	1,896,874	1,860,120
Chemtrade Logistics Income Fund	5,811,459	6,480,712	-	-
Connors Brothers Income Fund	2,968,998	3,346,000	-	-
Davis & Henderson Income Fund	5,165,000	5,495,560	-	-
Halterm Income Fund	2,086,566	3,650,086	1,929,412	3,021,337
IAT Air Cargo Facility Income Fund	1,116,127	1,264,065	1,629,008	1,816,235
North West Company Fund	1,080,158	1,096,336	-	-
Oceanex Income Fund	1,667,996	2,382,243	1,576,586	1,732,504
ReQuest Income Fund	974,438	655,593	-	-
Rogers Sugar Income Fund	4,487,282	4,294,689	2,572,925	1,665,435
SCI Income Trust	4,259,099	4,957,920	2,482,616	3,505,680
Westshore Terminals Income Fund	1,221,124	1,326,908	-	-
	<b>42,337,663</b>	<b>48,806,364</b>	<b>12,997,338</b>	<b>14,623,128</b>
<b>REIT EQUITIES</b>				
Canadian Apartment Properties REIT	1,767,532	2,227,327	1,457,400	1,535,091
Canadian Hotel Income Property REIT	1,655,471	1,700,788	-	-
Canadian Real Estate Investment Trust	3,282,046	3,448,477	-	-
Cominar Real Estate Investment Trust	2,244,993	2,536,836	-	-
CPL Long Term Care REIT	1,529,608	1,613,887	-	-
H&R Real Estate Investment Trust	9,682,809	11,399,380	4,793,541	5,140,897
Legacy Hotels Real Estate Investment Trust	6,937,724	8,061,368	991,261	1,021,774
Morguard Real Estate Investment Trust	179,673	182,343	-	-
Residential Equities REIT	14,470	14,970	-	-
Retirement Residences Real Estate Investment Trust	2,085,200	2,400,240	-	-
RioCan Real Estate Investment Trust	10,399,003	12,860,517	5,312,905	5,707,089
Royal Host Real Estate Investment Trust	574,692	609,342	-	-
Summit Real Estate Income Trust	971,108	1,106,906	-	-
	<b>41,324,329</b>	<b>48,162,381</b>	<b>12,555,107</b>	<b>13,404,851</b>
	<b>183,262,935</b>	<b>212,224,992</b>	<b>87,299,805</b>	<b>100,584,142</b>

# NOTES TO THE FINANCIAL STATEMENTS

## EnerVest Diversified Income Trust

Years Ended December 31, 2001 and 2000

### 1. ORGANIZATION OF THE TRUST

EnerVest Diversified Income Trust ("EnerVest") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of June 2, 1997. EnerVest is managed by EnerVest Diversified Management Inc., (the "Manager") and the fund manager is Cypress Capital Management Ltd. (the "Fund Manager"). EnerVest was listed on The Toronto Stock Exchange and effectively commenced operations on August 7, 1997. EnerVest shall continue until the year 2050 and its investment objective is to maximize monthly distributions and provide a cost-effective method of reducing investment risk primarily through investments in royalty and income trusts.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies.

#### *Valuation*

Investments are stated at market values based on closing market quotations. Short-term debt instruments are recorded at cost which approximates market value. The fair value of other financial instruments included in the balance sheet approximate their carrying value due to their short maturity or earn interest at a floating interest rate.

#### *Income recognition*

Investment transactions are recorded on the trade date. Realized gains or losses resulting from the sale of investments and unrealized appreciation or depreciation of investments is determined on an adjusted cost basis. Realized gains or losses resulting from the sale of short-term debt instruments are recorded as interest income. Distributions from income funds and trusts and dividend income earned from portfolio investments are recognized based upon the ex-distribution or ex-dividend date.

#### *Return of capital*

Distributions received from income funds and trusts that are a return of capital for income tax purposes are separately identified within the statement of changes in net assets and reduce the average cost base of the underlying securities in the investment portfolio.

#### *Comparative figures*

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

### 3. PROMISSORY NOTE RECEIVABLE

In connection with the public offering of Trust Units in 1999, EnerVest paid solicitation and advisory fees totalling \$499,135 which are to be reimbursed by the Manager over a ten year period ending December 22, 2009. The receivable is evidenced by a promissory note under which principal payments are being made to EnerVest in 40 equal payments of \$12,478 plus interest at the rate of prime plus 0.25% per annum commencing April 1, 2000. The payment dates are the first day of January, April, July and October of each year.

### 4. DISTRIBUTIONS TO UNITHOLDERS

Distributions as declared by the Manager, are made on a monthly basis, to Unitholders of record on the last day of each month, payable no later than the 15th day of the following month. Monthly, EnerVest is required to distribute to each Unitholder, as a minimum, their pro rata share of the income and other distributions which EnerVest has received or realized from its investments during the month less estimated expenses and taxes payable by EnerVest.

# NOTES TO THE FINANCIAL STATEMENTS

## EnerVest Diversified Income Trust

Years Ended December 31, 2001 and 2000

### 5. LONG-TERM DEBT

The \$15 million bank credit facility has a maturity date of December 19, 2002, bears interest at the bank's prime lending rate of interest plus 1/4%, and is secured by a first charge on the assets of EnerVest. EnerVest has provided the bank with notice of termination of this credit facility to occur on April 19, 2002 (see Note 9 - Subsequent Events).

### 6. UNITHOLDERS' EQUITY

A beneficial interest in the net assets and the net income of EnerVest is divided into transferable non-redeemable Trust Units of equal value. Each unit is entitled to one vote and to participate equally with all other Trust Units with respect to all payments made to holders of Trust Units out of EnerVest's assets. During 2001 and 2000, Trust Units were issued and repurchased as follows:

	2001		2000	
	Number of Units	Amount \$	Number of Units	Amount \$
Units, beginning of year	13,238,304	96,613,717	8,761,586	72,548,342
Repurchased	(15,000)	(101,850)	(333,200)	(1,820,937)
Issued	15,653,860	101,440,355	4,809,918	27,358,369
Cost of public issue	-	(4,490,765)	-	(1,472,057)
Units, end of year	28,877,164	193,461,457	13,238,304	96,613,717

In August 2001 and 2000, EnerVest closed rights offerings, issuing an additional 5,638,370 and 2,143,253 Trust Units respectively, for total proceeds of \$34.4 million and \$11.2 million respectively.

In November 2001 and 2000, EnerVest closed exchange offerings whereby EnerVest issued 10,010,598 and 2,679,236 Trust Units respectively, for total proceeds of \$67.0 million and \$16.2 million respectively, in exchange for certain royalty, income trust, and limited partnership units.

During the year 2001, EnerVest repurchased 15,000 (2000 - 330,200) units through its normal course issuer bid for an average price of \$6.79 (2000 - \$5.46). The normal course issuer bid expires April 30, 2002.

The change in Unitholder's equity during the years was as follows:

	2001 \$	2000 \$
Unitholders' equity, beginning of year	86,655,626	49,884,524
Change in Trust Units	96,847,740	24,065,375
Change in net assets from operations	35,124,427	25,646,792
Return of capital	(6,324,238)	(4,805,235)
Distributions to Unitholders	(14,493,634)	(8,135,830)
Unitholders' equity, end of year	197,809,921	86,655,626



# NOTES TO THE FINANCIAL STATEMENTS

## EnerVest Diversified Income Trust

Years Ended December 31, 2001 and 2000

### 7. INCOME TAXES

EnerVest is a taxable entity for income tax purposes and is taxable on any income that is not distributed to the Unitholders. It is the intention of EnerVest to distribute all of its net income and sufficient net realized capital gains so that it will not be subject to income taxes, other than foreign withholding taxes, if applicable.

### 8. RELATED PARTY TRANSACTIONS

The Manager, EnerVest Diversified Management Inc. is responsible for the business affairs of EnerVest and is entitled, pursuant to the Declaration of Trust dated as of August 5, 1997, to a management fee at an annual rate of 1.5%, payable monthly, calculated using the average daily net asset value and is also reimbursed for all administrative expenses incurred which relate to the operation of EnerVest.

For the year ended December 31, 2001, the administrative expenses charged to EnerVest amounted to \$833,842 (2000 - \$795,388), and on an annualized basis were 0.3% (2000 - 1.3%) of the average net assets of EnerVest. Included in accounts payable and accrued liabilities at December 31, 2001 is an amount of \$75,483 (2000 - \$94,702) owed to the Manager for such items.

During 2000, \$47,154 of advertising and \$137,785 of expenses related to the issuance of Units were charged to EnerVest by a company owned by the spouse of a former officer of the Manager who was also a member of the Manager's board of directors. These transactions were in the normal course of EnerVest's business and were conducted at fair market values. At December 31, 2001, no amount (2000 - \$45,653) was owing related to these transactions and included in accounts payable.

### 9. SUBSEQUENT EVENTS

On February 26, 2002, EnerVest closed a rights offering, issuing an additional 11,640,436 Trust Units for total proceeds of \$71.0 million.

On March 14, 2002, at a Special Meeting of Unitholders of EnerVest, the Declaration of Trust and the Management Agreement were amended to reduce the annual management fees from 1.5% to 1.0% of the net asset value of EnerVest in excess of \$250,000,000.

EnerVest has provided notice of termination of the \$15 million bank credit facility to occur on April 19, 2002. EnerVest has established a margin account at a major brokerage firm to provide a borrowing base, which may not exceed 20% of its total assets, after giving effect to such borrowing.

# CORPORATE GOVERNANCE

## EnerVest Diversified Income Trust

The Board of Directors (the "Board") and management of the Manager believe in the importance of good corporate governance and its effectiveness in promoting enhanced shareholder value. All corporations listed on the TSE must now annually disclose their approach to corporate governance with specific reference to each of the Guidelines. The Board has commenced a process of analyzing and considering, and implementing the Guidelines in a manner appropriate for the Trust. This process is on going. In some instances, as described in more detail below, certain of the Guidelines have not been adopted as the Board believes that such Guidelines are not appropriate for the Trust.

### GUIDELINES

1. The Board should explicitly assume responsibility for the stewardship of the Corporation, including:
  - a) the adoption of a strategic planning process;
  - b) the identification of the principal risks of the Trust's business and the implementation of appropriate systems to manage these risks;
  - c) succession planning, including appointing, training and monitoring senior management;
  - d) the Trust's communications policy; and
  - e) the integrity of the Trust's internal control and management information systems.
2. The Board should be constituted with a majority of individuals who qualify as unrelated directors.
3. The analysis of the application of the principles supporting the conclusion in paragraph 2 above.
4. The Board should appoint a committee of directors composed exclusively of outside, i.e., non-management directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.
5. The Board should implement a process to be carried out by the Nomination Committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.
6. The existence of an orientation and education program for new recruits to the Board.
7. The size of the Board and the impact of the number of directors upon the Board's effectiveness.
8. The adequacy and form of the compensation of directors should realistically reflect the responsibilities and risk involved in being an effective director.

### COMPLIANCE COMMENTS

While the Board of Directors has not explicitly acknowledged its responsibility for the stewardship of the Trust, the Board of Directors through the Manager is required to manage the business and affairs of the Trust pursuant to the provisions of the *Business Corporations Act* (Alberta) and the Declaration of Trust. The Board of Directors approves strategic planning initiatives formulated by management in consultation with the Chief Executive Officer but has not adopted a formal strategic planning process.

The Board of Directors assumes responsibility for the identification of the principal risks of the Trust's business and the implementation of appropriate systems to manage these risks and the integrity of the Trust's internal control and management information systems through the activities of the audit committee.

The Board of Directors generally directs the business and affairs of the Trust through management of the Manager. Generally the Board meets a minimum of four times each year, once in each fiscal quarter. In addition, the Board meets at other times when matters requiring its approval are raised and the timing is such that it is not prudent or possible to wait for a regularly scheduled meeting.

The responsibility of the Board for the succession planning process with respect to the appointment, training and monitoring of senior management is met through the activities of the entire Board which meets on a periodic basis to review the succession planning process of management.

The Board has generally delegated the communications policy to the senior management. Unitholder communications are generally handled by the Trust's Client Services Department, however, on occasion other members of management or Directors may communicate with shareholders directly.

The Board is currently composed of four directors, two of who qualify as unrelated. It is anticipated that one further unrelated director will be added in 2002.

Mr. Streukens, President and CEO of the Manager and Mr. Fischer, CFO, are related directors by virtue of these positions. The remaining members of the Board are independent of management and are free from any interest and any business or other relationship (other than interests and relationships arising from unitholdings), which could, or could reasonably be perceived to, materially interfere with such director's ability to act in the best interests of the Trust.

The Board has retained the responsibility for proposing to the full board new nominees to the Board. The Board has no formal process for assessing directors on an on-going basis. Nominations have generally been the result of recruitment efforts by the Board.

The Board has not implemented a formal process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.

The Board has not instituted any process at this time for an education or orientation program for new directors.

The Board is currently seeking one additional unrelated director.

During 2001, the Board reviewed the compensation of directors and determined that the present compensation reflects the responsibilities and risks involved in being an effective director.



# CORPORATE GOVERNANCE-continued

## EnerVest Diversified Income Trust

### **GUIDELINES - continued**

9. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated directors.
10. The Board's responsibility for (or a committee of the Board's general responsibility for) developing the Corporation's approach to governance issues.
11. The Board has developed:
  - a) position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities; and
  - b) the corporate objectives for which the CEO is responsible for meeting.
12. The structures and procedures ensuring that the Board can function independently of management.
13.
  - a) The Audit Committee of the Board should be composed only of outside directors.
  - b) The roles and responsibilities of the Audit Committee should be specifically defined.
  - c) The Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.
  - d) The Audit Committee's duties should include oversight responsibility for management reporting on internal controls and should ensure that management has designed and implemented an effective system on internal controls.
14. The existence of a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances.

### **COMPLIANCE COMMENTS - continued**

The Trust currently has one committee being the Audit Committee. This committee is comprised of three directors, one of which is regarded by the Board of Directors as being unrelated.

The Board of Directors has retained responsibility for developing the Trust's approach to corporate governance and to ensure the continuing effectiveness of the Board and its various committees.

The Board has not developed formal position descriptions for the Board, nor the CEO although the Board of Directors has set certain guidelines for the limits of authority on members of management.

The Board has not chosen an unrelated director to be Chairman, nor established any other formal procedures to ensure that the Board can function independently of management. However, the Board believes that it does function independently from management since its composition has 50% independent and unrelated directors.

The Audit Committee consists of Messrs. Streukens, Fischer and Sedgwick, one of which is an unrelated director. The mandate of the Audit Committee includes oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for Board approval, the audited financial statements and other mandatory disclosure releases containing financial information. The Audit Committee meets at least annually with the Trust's auditors to review the scope of the audit, the result of the audit and the auditor's evaluation of the Trust's internal controls.

The Board permits the Directors, when appropriate, to engage outside advisors at the expense of the Trust.

### **Board Approvals and Structure**

The Board responds to and if it considers appropriate approves, with such revisions as it may require, trust objectives and recommended courses of action, which have been brought forward by Board members and management. The Board retains plenary power for those functions not specifically delegated by it from time to time to management. In addition to maintaining the powers it must retain by statute, significant business activities, actions and communications proposed to be taken or submitted by the Trust are subject to Board approval.

Significant changes, long range plans, major changes in the organizational structure of the Trust, annual financial statements, major acquisition and disposition transactions, major financing transactions involving the issuance of units, debt or other commitments, appointment of officers and succession plans are all subject to Board approval.

### **Expectations of Senior Management**

The Board is involved in monitoring and assessing senior management through its regular contact with the management team, most of whom participate in presentations to the Board at regularly scheduled meetings. In addition, the Board assesses the individual performance of the President and Chief Executive Officer and the rest of senior management as part of its review process.



## TRUST INFORMATION

### MANAGER

EnerVest Diversified Management Inc.

### DIRECTORS - ENERVEST DIVERSIFIED MANAGEMENT INC.

Michael L. Streukens (1)

President and C.E.O.

EnerVest Resource Management Ltd.

David J. Fischer (1)

C.F.O.

EnerVest Resource Management Ltd.

S. Neil Sedgwick (1)

Partner

Martin & Brusset Associates

Jeffrey J. McCaig

President & C.E.O.

Trimac Corporation

(1) Member of the Audit Committee

### OFFICERS - ENERVEST DIVERSIFIED MANAGEMENT INC.

Michael L. Streukens

President and C.E.O.

David J. Fischer

C.F.O.

J. Ward Mallabone

Secretary

### HEAD OFFICE

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Fax: (403) 571-5554

### INVESTMENT MANAGER

Cypress Capital Management Ltd.

Greg Bay

President

Carl Hoyt

Chief Investment Officer

Suite 1050, 1055 W. Georgia Street

P.O. Box 11136

Vancouver, BC

V6E 3P3

Tel: (604) 659-1850

Fax: (604) 659-1899

### TRUSTEE, TRANSFER AGENT & REGISTRAR

Computershare Trust Company of Canada

Calgary/Toronto

Tel: (800) 564-6253

### AUDITORS

Deloitte & Touche LLP

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange

### SYMBOL

EIT.UN

### INVESTOR RELATIONS

Linda Koroluk

Denika Ralph

Website: [www.enervest.com](http://www.enervest.com)

Email: [info@enervest.com](mailto:info@enervest.com)

# EnerVest Diversified Income Trust

## INVESTMENT HIGHLIGHTS

	Dec.31 2001	June 30 2001	Dec.31 2000	June 30 2000
Six Month Total Return <sup>(a)</sup>	17.4%	12.4%	10.4%	12.6%
Net Asset Value Per Unit	\$6.85	\$7.17	\$6.55	\$6.41
Market Price Per Unit	\$6.90	\$6.40	\$6.05	\$6.00
Six Month Distributions Per Unit	\$0.42	\$0.42	\$0.42	\$0.40
Trailing Yield	12.2%	13.1%	13.6%	12.8%
Average Daily Trading Volume	70,700	23,300	27,200	10,400
Market Capitalization (\$ million)	\$199.3	\$84.7	\$80.1	\$51.4

<sup>(a)</sup> Includes distributions and the effects of any rights offerings



 **EnerVest**  
diversified management inc.